

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 DODE-00
PM-05 H-01 L-03 NSC-05 PA-01 PRS-01 SS-15 /109 W
-----057881 051732Z /50

R 051546Z DEC 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 2597
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION GENEVA
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
AMCONSUL STRASBOURG

LIMITED OFFICIAL USE SECTION 01 OF 02 PARIS 35372

USMTN: PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A
SUBJECT: SEASONAL ADJUSTMENT MECHANISMS MAINLY
RESPONSIBLE FOR DISCREPANCIES IN UNEMPLOYMENT DATA

REF: PARIS 33880

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SUMMARY: THE CONTRADICTORY TRENDS NOTED IN THE
SEPTEMBER AND OCTOBER SEASONALLY ADJUSTED AND
UNADJUSTED UNEMPLOYMENT DATA (SEE REFTL) CAN BE
LARGELY ATTRIBUTED TO DEFECTS IN INSEE'S SEASONAL
ADJUSTMENT MECHANISM. END SUMMARY

1. ALTHOUGH SEASONALLY ADJUSTED UNEMPLOYMENT

DECREASED FOR THE FIRST TIME IN 1977 FROM 1,215,900 IN AUGUST TO 1,100,000 IN OCTOBER, UNADJUSTED STATISTICS SHOWED AN INCREASE FROM 1,063,900 TO 1,205,800 DURING THE SAME PERIOD. EXAMINATION OF 1977 DATA REVEALS A CURIOUS PATTERN OF SHARPLY ESCALATING ADJUSTED UNEMPLOYMENT FROM DECEMBER THROUGH AUGUST WHILE UNADJUSTED UNEMPLOYMENT DECLINED FROM JANUARY THROUGH JUNE. A SOURCE AT INSEE EXPLAINS THIS PHENOMENON AS BEING DUE TO PROBLEMS IN THE SEASONAL ADJUSTMENT MECHANISM.

2. ACCORDING TO THIS SOURCE, TWO FACTORS HAVE CONTRIBUTED TO THIS PROBLEM:

A) THE EXCEPTIONALLY SHARP INCREASE IN THE LEVEL OF UNEMPLOYMENT WHICH HAS RESULTED IN A DOUBLING OF UNEMPLOYMENT IN FRANCE SINCE 1974.

B) CHANGES IN THE MIX OF THE COMPONENTS OF UNEMPLOYMENT.

3. INSEE EMPLOYS A MULTIPLICATIVE ADJUSTMENT MECHANISM TO ADJUST UNEMPLOYMENT DATA FOR SEASONAL VARIATION. THIS MECHANISM HAS PROVEN TO BE NOT SUFFICIENTLY FLEXIBLE TO COPE WITH THE RECENT SHARP INCREASE IN UNEMPLOYMENT IN FRANCE AND, CONSEQUENTLY, DISTORTIONS LIMITED OFFICIAL USE

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HAVEN BEEN CREATED IN THE SEASONAL ADJUSTED SERIES. THIS PROBLEM IS NOT UNIQUE TO FRANCE; ACCORDING TO THIS SOURCE, THE US, UK, GERMANY AND OTHER COUNTRIES ARE ALSO EXPERIENCING DIFFICULTIES WITH THEIR SERIES OF SEASONALLY ADJUSTED UNEMPLOYMENT. THE

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UK HAS BEEN FACED WITH THIS PROBLEM SINCE THE 1960'S
WHILE OTHER COUNTRIES HAVE BEEN AFFECTED BY IT SINCE
1973. STUDIES ARE BEING CONDUCTED IN VARIOUS
COUNTRIES TO ALLEVIATE THIS PROBLEM. A CROSS-COUNTRY
SURVEY OF THIS PROBLEM IS CURRENTLY BEING PREPARED
FOR THE EC.

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4. AN ADDITIONAL, ALTHOUGH NOT AS IMPORTANT, FACTOR
WHICH HAS CREATED DISTORTIONS IN THE SEASONALLY
ADJUSTED UNEMPLOYMENT DATA IS THE EVOLVING CHANGE IN
THE RELATIVE MIX OF UNEMPLOYMENT. THE RELATIVE
IMPORTANCE OF YOUTH AND WOMEN IN THE WORK FORCE AND
UNEMPLOYED HAS BEEN INCREASING WHILE THAT OF MEN AND
OLDER PERSONS HAS BEEN DECLINING. SINCE EACH OF THESE
COMPONENTS HAS A DIFFERENT SEASONAL PATTERN, IDEALLY
EACH SHOULD BE ADJUSTED INDIVIDUALLY FOR SEASONAL
VARIATION IN ORDER TO ACCOUNT FOR THE CHANGE IN
RELATIVE IMPORTANCE OF EACH COMPONENT.
HOWEVER, FRANCE ADJUSTS THE AGGREGATE, THUS CREATING
SOME DISTORTIONS IN THE SEASONALLY ADJUSTED
UNEMPLOYMENT STATISTICS.

5. ACCORDING TO OUR SOURCE, THE 1977 SEASONAL ADJUSTMENT COEFFICIENTS WHICH WERE ADOPTED LAST WINTER HAVE BEEN OVERADJUSTING THE UNEMPLOYMENT DATA, INSEE WAS AWARE OF THIS PROBLEM EARLY IN THE YEAR. HOWEVER, TO AVOID ANY CHARGES OF TAMPERING WITH THE UNEMPLOYMENT STATISTICS, IT IS NOT PERMITTED TO CHANGE THE ADJUSTMENT COEFFICIENTS. THUS, IT WILL HAVE TO WAIT UNTIL 1978 TO CORRECT THIS PROBLEM. BASED ON THE PATTERN OF PRODUCTION, A MORE REALISTIC PICTURE OF THE TREND IS SEASONALLY ADJUSTED UNEMPLOYMENT SHOULD SHOW A DECREASE IN UNADJUSTED UNEMPLOYMENT FOR THE FIRST HALF OF 1976, FOLLOWED BY AN INCREASE THROUGH OCTOBER 1977, BUT A MUCH MORE MODERATE RATE OF GROWTH THAN IS INDICATED BY THE CURRENT SERIES. OUR SOURCE ESTIMATES THAT, OF THE DECREASE OF APPROXIMATELY 100,000 IN THE NUMBER OF SEASONALLY UNEMPLOYED IN SEPTEMBER AND OCTOBER, APPROXIMATELY 50,000 WERE DUE LIMITED OFFICIAL USE

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TO IMPERFECTIONS IN THE ADJUSTMENT MECHANISM. ANOTHER 20,000 COULD BE ACCOUNTED FOR BY MEASURES TO TIGHTEN THE UNEMPLOYMENT ROLLS. THEREFORE, THE ACTUAL DECLINE IN SEASONAL UNEMPLOYMENT DURING THESE TWO MONTHS WAS ONLY 30,000 AT A MAXIMUM. SEASONALLY ADJUSTED UNEMPLOYED SHOULD REMAIN AT ITS CURRENT LEVEL THROUGH FEBRUARY ALTHOUGH THIS TREND MAY NOT BE ACCURATELY REFLECTED BY THE PUBLISHED SERIES OF ADJUSTED UNEMPLOYMENT STATISTICS.
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Disposition Approved on Date:
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